

# Auditing Procedures Report

\*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name	White Cloud/Sherman Utilities Authority	County	NEWAYGO	Type	AUTHORITY	MuniCode	62-7-513
Opinion Date-Use Calendar	Sep 25, 2008	Audit Submitted-Use Calendar	Sep 26, 2008	Fiscal Year End Month	06	Fiscal Year	2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

**Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."**

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input type="checkbox"/> ?	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="Qualified"/>
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/> ?	18. Are there reported deficiencies?
<input type="checkbox"/> ?	19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text" value="338,764.00"/>
General Fund Expenditure:	<input type="text" value="459,896.00"/>
Major Fund Deficit Amount:	<input type="text" value="121,132.00"/>

General Fund Balance:	<input type="text" value="3,584,981.00"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text" value="642,500.00"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)	Jodi	Last Name	DeKuiper	Ten Digit License Number	1101021180		
CPA Street Address	711 W. Main	City	Fremont	State MI	Zip Code 49412	Telephone	+1 (231) 924-6890
CPA Firm Name	Hendon & Slate, P.C.	Unit's Street Address	60 W. Baseline	Unit's City	White Cloud	Unit's Zip	49349

**WHITE CLOUD/SHERMAN  
UTILITIES AUTHORITY  
NEWAYGO COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS**

**JUNE 30, 2008**

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# **WHITE CLOUD/SHERMAN UTILITIES AUTHORITY**

## **Board Members**

Stanley Stroven, Sr.

Chairman

Dale Twing

Vice-Chairman

Richard Besser

Trustee

Ronald Carrozza

Trustee

Christine Tiernan

Trustee

Gail Hitts

Recording Secretary

# H&S Companies

Hendon & Slate, PC  
Certified Public Accountants  
Business Consultants

Utility Authority Board  
White Cloud/Sherman Utilities Authority  
Newaygo County  
White Cloud, MI 49349

## Independent Auditor's Report

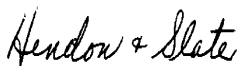
We have audited the accompanying financial statements of the White Cloud/Sherman Utilities Authority, Newaygo County, Michigan, as of June 30, 2008 and for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The authority made significant adjustments to the noncurrent asset account, Accounts Receivable - Tap Fees, during the current year. The authority determined that the system responsible for calculating the split between interest and principal on tap fee collections was not functioning correctly and made manual adjustments to several individual customer accounts. These facts do not allow us to rely upon the Authority's balance of this account and the testing required for us to do so lies outside of the scope of the current engagement.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the adjustments to the Accounts Receivable - Tap Fees account, the financial statements referred to above present fairly, in all material respects, the respective financial position of the White Cloud/Sherman Utilities Authority, Newaygo County, Michigan, at June 30, 2008 and the results of its operations and cash flows of its proprietary fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis included in the financial section of the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. We did not examine this data and, accordingly, do not express an opinion thereon.



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Fremont Office  
September 25, 2008

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## WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

### Management's Discussion and Analysis (MD&A)

Year Ended June 30, 2008

#### Using this Annual Report

This annual report consists of two parts - *management's discussion and analysis* (this section) and the *basic financial statements*. The basic financial statements include the following information:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Basic Financial Statements

The statement of net assets provides balances as of the end of the reporting period. The statement of revenues, expenses and changes in net assets provides information related to the activities of the Authority during the year. The statement of cash flows presents detailed information about the Authority's cash collections and disbursements. The notes to the basic financial statements explain some of the information in the financial statements and provide more detailed data.

#### Authority as a Whole

The White Cloud/Sherman Utilities Authority was organized to operate and maintain a sewage disposal system. The municipalities of the City of White Cloud and Sherman Township created the Authority.

The Authority's primary source of revenue is from user fees, representing 93% of total revenues. The user fee per quarter for the year ended June 30, 2008 was \$49.00 for residential users and \$49.00 times the assigned equivalent user factor for non-residential users.

The Authority charges \$2,500, with a minimum \$750 down payment, for initial connections into the sewer system. The remaining balance may be financed by the Authority over 30 years at 6% interest. The Authority has passed a resolution (effective July 1, 2004) requiring the customer to pay the \$2,500 connection fee as well as being responsible for the fees to an independent contractor to make the connection. Previously, the Authority used the \$2,500 connection fee to pay the independent contractor for the connection. An additional provision of the new resolution makes lateral repairs and maintenance 100% the responsibility of the customer. Previously, the Authority covered the cost of necessary lateral repairs.

The table below contains key financial information in a condensed format between the current year and the prior year:

	<u>6/30/2008</u>	<u>6/30/2007</u>
Current Assets	\$ 438,171	\$ 436,964
Noncurrent Assets	<u>3,804,410</u>	<u>3,996,510</u>
Total Assets	<u>\$ 4,242,581</u>	<u>\$ 4,433,474</u>

## Management's Discussion and Analysis (Continued)

Current Liabilities	\$ 65,100	\$ 63,703
Noncurrent Liabilities	<u>592,500</u>	<u>642,500</u>
Total Liabilities	<u>\$ 657,600</u>	<u>\$ 706,203</u>
Net Assets		
Invested in Capital Assets-Net of Debt	\$ 2,710,392	\$ 2,810,650
Unrestricted	<u>874,589</u>	<u>916,621</u>
Total Net Assets	<u>\$ 3,584,981</u>	<u>\$ 3,727,271</u>
Revenues		
User Fees	\$ 316,129	\$ 318,458
Other	<u>22,635</u>	<u>23,116</u>
Total Revenues	338,764	341,574
Expenses	<u>(459,896)</u>	<u>(473,621)</u>
Change in Net Assets	<u>\$ (121,132)</u>	<u>\$ (132,047)</u>

### **Governmental Activities**

All of the Authority's financial information is for business-type activities. Therefore, no governmental activities are reported.

### **The Authority's Fund**

The Authority uses an Enterprise Fund to account for the activities of its Sewer Fund.

### **General Fund Budgetary Highlights**

The Authority uses an Enterprise Fund to account for the activities of its Sewer Fund. Budgetary requirements do not exist for Enterprise Funds as they do for governmental-type funds such as a General Fund. Therefore, no budgetary highlights are reported.

### **Debt Administration**

At year end, the Authority has \$642,500 in notes outstanding. The debt resulted from the issuing of bonds for the purpose of creating the sewer system.

Additional information about the Authority's long-term debt obligation can be found in Note D on page 13 of this report.

## Management's Discussion and Analysis (Continued)

### **Economic Factors**

The Authority's financial position has been affected by the following factors: 1) The Authority's customer base remained fairly consistent with prior years; 2) the flow rate continues to decline compared to past years; 3) The possibility of a several potential projects pertaining to a youth camp, a new jail and a duplex project, 4) The Authority will be seeking bid's to have the roof of the facility replaced, 5) The Authority is actively pursuing a new billing system, and 6) The resolution passed by the Authority effective July 1, 2004 regarding the changes to the connection fee and responsibility for repairs and maintenance will decrease the expenditures the Authority will be responsible for in future years.

### **Contacting the Authority's Management**

This financial report is intended to provide our citizens, taxpayers, customers, creditors and investors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Recording Secretary of the Authority, White Cloud/Sherman Utilities Authority, C/O Gail Hitts, 60 W. Baseline Road, P.O. Box 725, White Cloud, MI 49349.



# WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

## Statement of Net Assets - Enterprise Fund June 30, 2008

### ASSETS

Current Assets		
Cash and Cash Equivalents	\$	319,560
Accounts Receivable-Billings		85,882
Inventory		6,051
Prepaid Expenses		<u>26,678</u>
Total Current Assets		438,171
Noncurrent Assets		
Accounts Receivable-Tap Fees		451,518
Property, Plant and Equipment (at cost)	\$	7,334,617
Less: Accumulated Depreciation		<u>(3,981,725)</u>
Net Property, Plant and Equipment		<u>3,352,892</u>
Total Noncurrent Assets		<u>3,804,410</u>
Total Assets		<u><u>\$ 4,242,581</u></u>

### LIABILITIES

Current Liabilities		
Accounts Payable	\$	2,246
Accrued Compensated Absences		2,978
Accrued Wages		5,532
Accrued Retirement		1,045
Withholding Taxes Payable		3,299
Current Portion of Long-Term Debt		<u>50,000</u>
Total Current Liabilities		65,100
Noncurrent Liabilities		
Lease Payable-Net of Current Portion		<u>592,500</u>
Total Liabilities		657,600

### NET ASSETS

Invested in Capital Assets-Net of Debt		2,710,392
Unrestricted		<u>874,589</u>
Total Net Assets		<u>3,584,981</u>
Total Liabilities and Net Assets		<u><u>\$ 4,242,581</u></u>

The Notes to the Financial Statements are an integral part of this statement.

## WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

### Statement of Revenues, Expenses and Changes in Net Assets - Enterprise Fund For the Fiscal Year Ended June 30, 2008

#### REVENUES

Sales	
City of White Cloud	\$ 197,990
Sherman Township	118,139
Fees and Penalties	7,549
Miscellaneous	<u>1,495</u>
 Total Revenues	 325,173

#### EXPENDITURES

Legislative Expenses	
Salaries	<u>4,800</u>
 Total Operating Expenses - Legislative	 4,800
 Operating Maintenance Expenses	
Salaries	53,195
Operating Supplies	11,546
Utilities	32,975
Repairs and Maintenance	7,135
Permits	3,650
Other Services	<u>1,203</u>
 Total Operating Maintenance Expenses	 109,704
 Depreciation Expense	 150,259

The Notes to the Financial Statements are an integral part of this statement.

Administrative and General Expenses	
Salaries	\$ 70,557
Taxes - FICA	9,736
Retirement	13,018
Health Insurance	28,845
Professional Services	3,995
Office Supplies	3,907
Insurance	26,688
Miscellaneous	1,878
Memberships & Training	735
Utilities and Paging	<u>2,274</u>
Total Administrative and General Expenses	<u>161,633</u>
Total Operating Expenses	<u>426,396</u>
Operating Loss	(101,223)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest Earned on Investments	13,591
Interest Expense	<u>(33,500)</u>
Total Nonoperating Revenues (Expenses)	<u>(19,909)</u>
Change in Net Assets	(121,132)
Prior Period Adjustment - See Note J	(21,158)
Net Assets - July 1, 2007	<u>3,727,271</u>
Net Assets - June 30, 2008	<u><u>\$ 3,584,981</u></u>

The Notes to the Financial Statements are an integral part of this statement.

## WHITE CLOUD/SHERMAN UTILITIES AUTHORITY

### Statement of Cash Flows - Enterprise Fund For the Year Ended June 30, 2008

Cash Flows from Operating Activities:	
Cash Received from Operating Activities	\$ 70,517
Cash Flows from Non-Capital Financing Activities:	
Principal and Interest Paid on Debt	(83,500)
Cash Flows from Investing Activities:	
Interest Income	<u>13,591</u>
Net Decrease in Cash and Cash Equivalents	608
Cash and Cash Equivalents at Beginning of Year	<u>318,952</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 319,560</u></u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating Loss	\$ (101,223)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	150,259
Change in Assets and Liabilities:	
Increase in Accounts Receivable-Billings	(538)
Decrease in Accounts Receivable-Tap Fees	20,684
Increase in Prepaid Expenses	(62)
Decrease in Accounts Payable	(189)
Increase in Accrued Compensated Absences	596
Increase in Accrued Wages	681
Increase in Accrued Retirement	67
Increase in Withholding Taxes Payable	<u>242</u>
Net Cash Provided by Operating Activities	<u><u>\$ 70,517</u></u>

The Notes to the Financial Statements are an integral part of this statement.

## **WHITE CLOUD/SHERMAN UTILITIES AUTHORITY**

Notes to the Financial Statements  
For the Year Ended June 30, 2008

### **NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of White Cloud/Sherman Utilities Authority (the "Authority") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant account policies:

#### **1. REPORTING ENTITY**

The White Cloud/Sherman Utilities Authority is organized pursuant to the provisions of Act 233 PA 1955, as amended. The incorporating municipalities that created this Authority were the City of White Cloud and Sherman Township, which are designated as the Constituent Municipalities. The Authority is located in Newaygo County and its purpose is to provide sewer system services to the residents of the Constituent Municipalities. The Authority is governed by a six member Utility Authority Board appointed by the participating governments and is responsible for the operation of the Authority.

The Authority's financial statements include all activities of the Authority's operations. There are no governmental departments, agencies, institutions, commissions, public authorities or organizations within the Authority, which its appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Authority's power and include, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability of fiscal matters.

Also, using the same criteria above, the Authority's financial statements include the accounts of all Authority operations.

2. There is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on this criteria, there are no other entities included in this report.

#### **2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

Enterprise funds use the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

## Notes to the Financial Statements (continued)

Enterprise funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprise - where the intent of the governing body is that the costs (Expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

### 3. CAPITAL ASSETS

Capital Assets which include land and improvements, buildings and improvements and equipment are reported in the basic financial statements. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life on an asset are capitalized. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Machinery & Equipment	10 Years
Sewer System	50 Years

### 4. CASH AND EQUIVALENTS

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments, if any, with original maturities of three months or less from date of acquisition.

### 5. ACCOUNTS RECEIVABLE

Accounts receivable-billings represent services provided to customers within the service area. Delinquent utility billing are placed on the tax roll and are therefore considered to be ultimately collectible. Accounts receivable-tap fees represent amounts for original tap fees that have been financed by the Authority. The Authority permits the financing of these fees over 30 years at 6% interest.

### 6. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## 7. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

## 8. COMPENSATED ABSENCES

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Authority employees are granted vacation and sick leave in varying amounts based on length on service. Upon termination, employees are paid accumulated vacation at full rates, but lose any unused sick leave. All vacation pay is accrued when incurred in the financial statements. A liability for this amount is reported on the enterprise fund balance sheet.

## NOTE B DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Authority is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority's Board has designated five banks for the deposit of funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and CD's, bankers' acceptances of United States banks, and mutual funds under the Investment Company Act of 1940, but not the remainder of State statutory authority as listed above.

The Authority's deposits and investment policy are in accordance with statutory authority.

The Authority's deposits are carried at cost and consisted of the following:

	Carrying Value	Market Value
Independent Bank of West Michigan		
Checking	\$ (86)	\$ 10

Notes to the Financial Statements (continued)

Savings-Reserve	\$ 6,106	\$ 6,106
Savings-Replacement	5,407	5,407
NOW Money Market	52,255	52,255
Choice One Bank		
Certificate of Deposit	5,544	5,544
State Farm Bank		
Certificate of Deposit	116,344	116,344
Fifth Third Bank		
Checking	19,798	19,798
Gerber Employees Federal Credit Union		
Savings	38,418	38,418
Savings	801	801
Certificate of Deposits	74,716	74,716
Petty Cash	<u>257</u>	<u>257</u>
Total Deposits	<u>\$ 319,560</u>	<u>\$ 319,656</u>
FDIC Insured	\$ 289,281	\$ 289,377
Uninsured	<u>30,279</u>	<u>30,279</u>
Total Deposits	<u>\$ 319,560</u>	<u>\$ 319,656</u>

Investments are normally categorized to give an indication of the level of risk assumed by the Authority; however, money market and cash management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investment in the funds comply with the investment authority noted above.

NOTE C RECEIVABLES

Receivables as of year-end are as follows:

Sewer Sales	\$ 59,455
Delinquent	26,427
Tap Fees	<u>451,518</u>
Total	<u>\$ 537,400</u>

The accounts receivable represent sewer sales to Customers in the Authority's service area. Customers are billed quarterly in advance for sewer services provided in the prior quarter.



Notes to the Financial Statements (continued)

The Authority's policy is to place delinquent sewer receivables on the property tax rolls each year. The monies are eventually received through the county tax revolving fund program. Because of this policy, the account balances are considered current and collectible.

NOTE D NEWAYGO COUNTY DPW REVENUE BONDS

The Authority has a capital lease with GMAC Commercial Mortgage Corporation for the purchase of the sewer system assets. The Authority pays the lease out of revenues of the system. For the current year, the Authority paid interest of \$36,000 on the outstanding debt. The original amount of the capital lease was \$2,100,000. The City of White Cloud and Sherman Township are ultimately responsible for the debt. In the event that the Authority is unable to make debt service payments, the debt would be the responsibility of the City and Township as follows. The debt will be retired in the year 2020.

City of White Cloud	26.40%
Sherman Township	<u>73.60%</u>
Total	<u><u>100.00%</u></u>

	<u>6/30/2007</u>	<u>Retired</u>	<u>6/30/2008</u>
Change in Debt	<u>\$ 692,500</u>	<u>\$ 50,000</u>	<u>\$ 642,500</u>

Amounts required to amortize the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Outstanding 6/30/2008</u>	<u>Interest Payable If Held to Maturity</u>	<u>Amount of Annual Maturity</u>
2009	5%	\$ 50,000	\$ 32,500	\$ 82,500
2010	5%	50,000	30,000	80,000
2011	5%	50,000	27,500	77,500
2012	5%	50,000	25,000	75,000
2013	5%	50,000	22,500	72,500
2014-2018	5%	250,000	75,000	325,000
2019-2020	5%	<u>142,500</u>	<u>12,500</u>	<u>155,000</u>
Total		<u>\$ 642,500</u>	<u>\$ 225,000</u>	<u>\$ 867,500</u>

NOTE E DEFINED BENEFIT PENSION PLAN

As of May 1, 2006 the Authority became a participant in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: Normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2007.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report the includes financial statements and required supplementary information for notes to the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, MI 48917-9755.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the Authority's personnel policy, which does not require employees to contribute to the plan. The Authority is required to contribute at an actuarially determined rate; the rate was 10.53% as of May 1, 2006 until July 1, 2008 when the rate increases to 11.85%.

Annual Pension Cost - During the fiscal year ended June 30, 2008, the Authority's contributions totaling \$13,018 were made in accordance with contribution requirements. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increase of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2007 actuarial valuations. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 and GASB 27 Information - The following information has been prepared to provide the information necessary to comply with GASB Statements Number 25 and 27.

Notes to the Financial Statements (continued)

<u>GASB 25 Information</u>	As of 12/31/2007
Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$ -
Terminated employees not yet receiving benefits	-
Current Employees	
Accumulated employee contributions including allocated investment income	55,123
Employer Financed	<u>80,909</u>
Total Actuarial Accrued Liability (b)	136,032
Net Assets Available for Benefits at Actuarial Value (Market Value is \$83,730) (a)	<u>82,765</u>
Unfunded (Over funded) Actuarial Accrued Liability	<u>\$ 53,267</u>

GASB 27 Information

Fiscal Year Beginning	July 1, 2009
Annual Required Contribution (ARC)	14,544
Amortized Factor Used	0.055889

<u>Fiscal Period Ended</u>	<u>Trend Information</u>		
	<u>Ann. Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2007	\$ 12,529	100%	-
June 30, 2008	13,018	100%	-

<u>Schedule of Funding Progress</u>						
<u>Actuarial Valuation 12/31</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded (Over) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL As a % of Covered Payroll ((b-a)/c)</u>
2006	\$ 64,796	\$ 109,077	\$ 44,281	59.40%	\$ 111,505	39.71%
2007	82,765	136,032	53,267	60.84%	121,455	43.86%

Notes to the Financial Statements (continued)

NOTE F DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits deferral of a portion of earnings until future years. The assets of the plan are held in trust, as described in Section 457 of the Internal Revenue Code for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof of the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators, Nationwide Retirement Services, are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Authority's financial statements.

It is the opinion of the Board that the Authority has no liability for losses under the plan but does have the duty of due care that would be required for an ordinary prudent investor.

NOTE G CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2008 were as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets not Being Depreciated				
Land	\$ 1,211	\$ -	\$ -	\$ 1,211
Capital Assets Being Depreciated				
Sewer Plant	7,234,028	-	-	7,234,028
Machinery and Equipment	99,378	-	-	99,378
Subtotal	7,333,406	-	-	7,333,406
Less Accumulated Depreciation for				
Sewer Plant	3,757,228	144,681	-	3,901,909
Machinery and Equipment	74,238	5,578	-	79,816
Subtotal	3,831,466	150,259	-	3,981,725
Net Capital Assets being depreciated	3,501,940	(150,259)	-	3,351,681
Business-Type Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 3,503,151</u>	<u>\$ (150,259)</u>	<u>\$ -</u>	<u>\$ 3,352,892</u>

NOTE H RELATED PARTIES

The White Cloud/Sherman Utilities Authority is the agent for sewer services for both Sherman Township and the City of White Cloud.

## Notes to the Financial Statements (continued)

### NOTE I RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

### NOTE J PRIOR PERIOD ADJUSTMENT

During the current year, the Authority made significant adjustments to the noncurrent asset account, Accounts Receivable - Tap Fees. The Authority determined that the system responsible for calculating the split between interest and principal on tap fee collections was not functioning correctly. Manual adjustments were made to several individual customer accounts. These adjustments decreased the total amount of the receivable from tap fees as well as net assets by

# H&S Companies

Hendon & Slate, PC  
Certified Public Accountants  
Business Consultants

September 25, 2008

## Board Members

White Cloud/Sherman Utilities Authority  
60 W. Baseline Road  
P.O. Box 725  
White Cloud, MI 49349

Dear Board Members:

In planning and performing our audit of the financial statements of the White Cloud/Sherman Utilities Authority as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the White Cloud/Sherman Utilities Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Grand Rapids  
4575 Lake Michigan Dr. NW  
Grand Rapids, MI 49546  
Phone (616) 453-8551  
Fax (616) 453-9352

Muskegon  
4985 South Harvey Street  
Muskegon, MI 49444  
Phone (231) 798-1040  
Fax (231)-798-8409

Fremont  
711 West Main Street  
Fremont, MI 49412  
Phone (231) 924-6890  
Fax (231) 924-4088  
Toll Free (800) 924-6891

Montague  
4538 Dowling Street  
Montague, MI 49437  
Phone (231) 893-6772

Hart  
1550 N. Industrial Park Drive  
Hart, MI 49420  
Phone (231) 873-5611  
Fax (231) 873-7033

[www.hscompanies.com](http://www.hscompanies.com)

Controls over Non-Routine and Non-Systematic Transactions

The Authority does not have controls in place whereby journal entries are reviewed by individuals independent of the person initiating the transactions.

Controls over Financial Statement Preparation

The Authority currently does not have personnel available with sufficient expertise to select and apply the accounting principles necessary to prepare the financial statements and note disclosures contained in the audit report.

Controls over Segregation of Accounting Duties

The small size of the Authority's office staff and lack of segregation of duties creates the danger that intentional or unintentional errors could be made and not detected.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

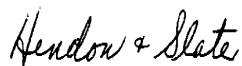
Controls over the Tap In Fee Receivable System

During the engagement, we became aware that the tap in fee receivable system was not properly calculating the split between interest and principal on customer collections. In an attempt to correct the balances, the Authority was able to manually override certain customer balances. This fact points out that the system does not have adequate safeguards to prevent manual overrides of customer balances. In addition, the source code of the program is not protected which would allow for alterations to be made to the system which could make calculations inaccurate, either intentionally or unintentionally.

This communication is intended solely for the information and use of management, and the board of director's of the White Cloud/Sherman Utilities Authority and others within the department, and is not intended to be and should not be used by anyone other than these specified parties.

Thank you for the courtesy extended to us during the audit. We look forward to a continued relationship with the White Cloud/Sherman Utilities Authority. If you have any questions regarding the audit report, this letter or any other communications, please do not hesitate to call.

Respectfully submitted,



Hendon & Slate, P.C.  
Certified Public Accountants  
Fremont Office

# H&S Companies

Hendon & Slate, PC  
Certified Public Accountants  
Business Consultants

September 25, 2008

## Board Members

White Cloud/Sherman Utilities Authority  
60 W. Baseline Road  
P.O. Box 725  
White Cloud, MI 49349

Dear Board Members:

We have audited the financial statements of the White Cloud/Sherman Utilities Authority for the year ended June 30, 2008, and have issued our report thereon dated September 25, 2008. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibilities under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 22, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the White Cloud/Sherman Utilities Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the White Cloud/Sherman Utilities Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 6, 2008.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the White Cloud/Sherman Utilities Authority are described in Note A to the financial statements. We noted no transactions entered into

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by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 25, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. We are including the following comments and recommendations regarding internal controls:

PRIOR YEAR COMMENTS:

During our audit of the June 30, 2007 financial statements, we made the following recommendations that were not implemented as of June 30, 2008:

- Billing System – In the previous year, we encouraged the Board to replace the billing system with a system that would provide more accurate and complete information for both the Board as well as its customers. While this has not taken place, we were pleased to see that the Authority took many steps toward making this a reality. We understand that the Authority has had a very difficult time finding a system that meets their needs, but hope that the Board will persevere and upgrade the current billing system as soon as possible.

CURRENT YEAR COMMENTS:

Along with the comments from prior years, we also offer the following:

- Billing System – As mentioned above, we continue to encourage the Board to take all necessary steps toward replacing the current billing system. During the current year, the Bookkeeper did a tremendous amount of work to determine how accurately the existing system has been tracking tap fee balances. Unfortunately, she discovered that a significant number of the accounts she tested required adjustment. This troubles us greatly and, in fact, we have deemed it necessary to qualify our opinion with respect to the balance of this account (please note paragraphs three and four of the Independent Auditor's Report as found on page one of the audited financial statements). To test or audit the adjustments made, as well as the accounts that were not adjusted, we would have needed to spend a great deal more time that would have been outside the original scope and fees previously submitted in a bid to the Board. After discussing the issues with the Manager, he recommended that we proceed without the additional testing at this time and to qualify our opinion. The Board should understand that our opinion on the remainder of the financial statements remains as it has in past years. However, as we are no longer able to rely on the balance of the tap receivable, our opinion will mostly likely require qualification until the time that either:
  - 1) The Authority seeks an engagement whereby the changes made can be properly assessed and the accounts that have yet to be adjusted have the same procedures applied to them and/or
  - 2) The Authority implements a new billing system and seeks an engagement whereby testing can be performed to ensure that the opening balances being entered are accurate.

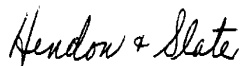
We would be happy to assist the Board in determining the proper balance of the tap receivable, but could not do so as part of the current engagement as it would have been outside the scope of the audit.

- Computer Backup Procedures - We noted that the Authority has adopted a backup procedure for the Peachtree accounting system that involved a manual backup to cd every seven days. While we commend the Authority for implementing this procedure, we would suggest that the system could be improved if the cd's containing the backup be kept in a fireproof safe or at an offsite location such as a safe deposit box. We would also recommend that a system to backup the billing system be implemented. As the Board is in the process of pursuing a new billing system, this recommendation may need to be tabled. However, this function should be kept in mind as a necessity for any future billing system.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of the White Cloud/Sherman Utilities Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Hendon & Slate, P.C.  
Certified Public Accountants  
Fremont Office